

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7078

BILL NUMBER: HB 1083

NOTE PREPARED: Jan 11, 2005

BILL AMENDED:

SUBJECT: Earned Income Tax Credit Extension.

FIRST AUTHOR: Rep. Murphy

FIRST SPONSOR: Sen. Alting

BILL STATUS: As Passed House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill repeals a provision that terminates the Earned Income Tax Credit on December 31, 2005.

Effective Date: July 1, 2005.

Explanation of State Expenditures: *Earned Income Tax Credit (EITC) Refunds:* The refundable portion of the EITC that goes to participants in the Temporary Assistance to Needy Families (TANF) Program qualifies as maintenance of effort (MOE) expenditures and contributes toward the state's annual MOE requirement under the TANF Program. It is estimated that refunds of the 6% EITC could potentially total about \$8.0 M to \$10.0 M annually. This is based on a simulation utilizing state taxpayer data and federal Earned Income Credit (EIC) data.

Explanation of State Revenues: *Summary:* The bill could potentially reduce revenue from the Individual Adjusted Gross Income (AGI) Tax by approximately \$20.7 M in FY 2006 and \$50.7 M in FY 2007. It is estimated that the revenue loss could potentially increase by about 4.6% annually thereafter.

Revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%).

Background: The current EITC is equal to 6% of the Federal Earned Income Credit (EIC), but is scheduled to sunset on December 31, 2005. The bill makes the current 6% EITC permanent by repealing the scheduled sunset date. The revenue impact of making the EITC permanent is expected to begin in FY 2006, assuming

the renewal of the EITC in CY 2006 affects monthly withholdings during the first half of CY 2006. The estimated annual revenue loss from the bill in FY 2006 to FY 2009 is presented in the table below. The revenue loss is estimated to increase by 4.6% per year.

Fiscal Year	Est. Revenue Loss
2006	\$20.7 M
2007	50.7 M
2008	53.0 M
2009	55.4 M

Under current statute (with the December 31, 2005, sunset date), the EITC is estimated to reduce AGI Tax revenue by \$46.3 M in FY 2005 and \$27.7 M in FY 2006, with no revenue loss beginning in FY 2007. The FY 2006 revenue loss is attributable to expected reductions in withholdings from the EITC during the second half of CY 2005, with no impact occurring during the first half of CY 2006.

Federal income tax data for tax year 2002 indicates that the federal EIC was claimed by 414,869 federal income tax filers residing in Indiana. This total was 11.0% above the 2001 total. The credits claimed in 2002 totaled about \$692.0 M, increasing by about 13.2% over 2001 credits claimed. Annual growth in credits claimed by Indiana filers averaged 4.6% from 1996 to 2002.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: OFMA Income Tax Databases, Tax Years 2000 & 2001; Internal Revenue Services, Statistics on Income, <http://www.irs.gov/taxstats>.

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